

Message Text

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PAGE 01 ADDIS 03216 231520Z

ACTION AF-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 EPG-02 DODE-00 EB-07 FPC-01 H-01
INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04
USIA-06 OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07
FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 /113 W
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FM AMEMBASSY ADDIS ABABA

TO SECSTATE WASHDC 4105

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E.O. 11652: N/A

TAGS: ENGR ET

SUBJ: ETHIOPIAN GOVT ANNOUNCES PETROLEUM PRICE INCREASE

REF: ADDIS ABABA 0057

1. ETHIOPIAN PROVISIONAL MILITARY GOVERNMENT (EPMG)
MINISTRY OF COMMERCE AND TOURISM ISSUED A PUBLIC NOTICE
MAY 17 RAISING REFINERY AND RETAIL PRICES OF ALL
PETROLEUM PRODUCTS PRODUCED AT THE COUNTRY'S SINGLE
GOVT-OWNED REFINERY AND MARKETING THROUGH FOUR
FOREIGN-OWNED OIL COMPANIES (MOBIL, SHELL, TOTAL AND
AGIP). RETAIL PRICE INCREASES VARY FROM SLIGHT
RISES FOR BASIC CONSUMER PETROLEUM PRODUCTS (2.3 PCT FOR
REG. GAS AND DIESEL FUEL AND 3.3 PCT FOR PREM.
GAS IN ADDIS ABABA) TO LARGE INCREASES IN THE PRICE
OF INDUSTRIAL PRODUCTS (PRICE OF ASPHALT WAS NEARLY
DOUBLED AND INDUSTRIAL FUEL OIL PRICES INCREASED BY
60 PCT). PRICES FOR BLACK AND WHITE NAPHTHA, BUTANE, JET FUEL
AND AVGAS ALSO INCREASED. NOTICE SETS
RETAIL PRICES FOR EVERY LOCATION IN ETHIOPIA, VARYING
TO REFLECT ASSAB REFINERY PRICE PLUS TRANSPORT

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PAGE 02 ADDIS 03216 231520Z

COSTS. NEW ADDIS ABABA RETAIL PRICES ARE 32 US CENTS
PER LITER FOR REG GAS, 37.7 US CENTS PER
LITER FOR PREM. AND 21.7 US CENTS PER LITER FOR
DIESEL. REFINERY PRICES CHARGED TO PETROLEUM MAR-
KETING COMPANIES HAVE BEEN INCREASE MORE THAN RETAIL
PRICES, THUS SHAVING OIL COMPANY PROFITS ALONG LINES
REPORTED IN REFTEL. PRICE INCREASES JUST ANNOUNCED

WILL IMPLEMENT PLAN REPORTED REFTEL, NEARLY FIVE MONTHS AFTER NEGOTIATIONS WERE COMPLETED BETWEEN EPMG AND COMPANY REPS. COMPANIES ARE BEING ASKED TO SIGN NEW MARKETING AGREEMENT WITH EPMG TO FORMALIZE ARRANGEMENT. EPMG WANTS FIVE YEAR AGREEMENT. MOBIL IS READY TO SIGN FOR THREE WHILE OTHER FIRMS ARE ONLY WILLING TO SIGN FOR ONE YEAR. MEETINGS ARE SCHEDULED THIS WEEK IN ATTEMPT TO RESOLVE DIFFERENCES.

2. PRICE INCREASES SHOULD COVER NOT ONLY THE INCREASED COST OF CRUDE OIL TO THE LATEST OPEC PRICE RISES BUT SHOULD ALSO ELIMINATE NEED FOR EPMG SUBSIDY (APPROX US \$5 MILLION IN 1976) TO ASSAB REFINERY. ETHIOPIAN CRUDE OIL CONTINUES TO COME FROM SAUDI ARABIA (THROUGH MOBIL CONTRACT WITH EPMG WHICH HAS ONE YEAR YET TO RUN). THUS CRUDE OIL PRICES INCREASE IN JAN WAS ONLY 5PCT. INCREASED COST WILL BE PARTIALLY ABSORBED BY OIL COMPANIES THROUGH REDUCED PROFIT MARGINS AS REPORTED IN REFTEL BUT BULK OF THE INCREASED COST IS BEING PASSED ON TO SELECTED CUSTOMERS, HITTING THE INDUSTRIAL USERS MOST HEAVILY. THE MAJOR CONSUMERS, EITHER DIRECTLY OR INDIRECTLY, OF FUEL OIL, ASPHALT AND OTHER "HEAVY" PETROLEUM PRODUCTS ARE GOVT AGENCIES AND GOVT-OWNED CORPS. PRESUMABLY THESE ORGANIZATIONS WILL IN TURN BE ALLOWED TO PASS ON THEIR INCREASED COSTS TO THEIR CONSUMERS.

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PAGE 03 ADDIS 03216 231520Z

3. EPMG ANNOUNCEMENT OF PRICE INCREASES PLACES BLAME SQUARELY ON OPEC STATES. STATEMENT NOTES THAT ETHIOPIA'S PETROLEUM IMPORT BILL HAS RISEN FROM 27 MILLION BIRR (\$13 MILLION) IN 1971 TO 93 MILLION BIRR (US \$45 MILLION) IN 1975. STATEMENT ADDS THAT OPEC CRUDE OIL PRICE INCREASES OF LAST SEPT, THIS JAN AND "SCHEDULED FOR NEXT MONTH", WILL COST ETHIOPIA AN ADDITIONAL 28 MILLION BIRR (\$13.5 MILLION). STATEMENT SAYS ETHIOPIA HAD NO CHOICE BUT TO ACCEPT THE PETROLEUM PRICE INCREASES IMPOSED BUT NOTES THAT RETAIL PRICE INCREASES ARE VERY SMALL COMPARED TO THOSE OF EARLY 1974. BECAUSE OF ECONOMIC AND POLITICAL IMPORTANCE OF PETROLEUM INDUSTRY AND ESPECIALLY OF RETAIL PRICE LEVELS, EPMG HAS MOVED VERY CAUTIOUSLY IN THIS AREA AND THE INCREASES HAVE OBVIOUSLY BEEN THOROUGHLY CONSIDERED AND ALMOST CERTAINLY APPROVED BY THE HIGHEST LEVELS IN THE EPMG.

4. PROFITS CUTS AND RELTIVE RESIDUAL PROFIT LEVELS

OF THE FOUR OIL MARKETING COMPANIES WILL REMAIN
BASICALLY AS OUTLINED IN REFTEL. HOWEVER, COMPANY
PROFITS FOR 1977 SHOULD EXCEED PROJECTED LEVELS
SINCE REDUCED MARGINS WERE NOT INTRODUCED AT THE
BEGINNING OF THE YEAR AS HAD BEEN PROJECTED IN ORIGINAL
CALCULATIONS. MOBIL, THE ONLY US OIL COMPANY IN
ETHIOPIA, AND SHELL REMAIN IN STRONG PROFIT POSITION
BUT AGIP AND TOTAL ARE FACING SERIOUS PROBLEMS.
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